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EXECUTIVE SECRETARIAT
Routing Slip

*Memo
Chemo*

TO:		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	D/DCI/RM				
4	DD/NFA		X		
5	D/DCI/CT				
6	DD/A				
7	DD/O				
8	DD/S&T				
9	GC				
10	LC				
11	IG				
12	Compt				
13	D/PA				
14	D/EE0				
15	D/PPPM				
16	AO/DCI				
17	PB/NSC				
18	D/DCI	X			
19	C/MIC		X		
20	C/OPP		X		
21	ES		X		
22					
SUSPENSE		12 August Date			

Remarks:

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To 1st: Please coordinate response
to DCI with

Executive Secretary

10 August 1981


81-1221/2

10 August 1981

MEMORANDUM FOR: Director of Economic Research
FROM: Director of Central Intelligence
SUBJECT: The Changing Global Economic Environment:
Implications for Leverage

What happened to the redraft of this paper? Some weeks ago I responded to the questions which Sid raised about how to take the first draft further. (U)

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for William J. Casey

Attachment

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TERMS OF REFERENCE

THE CHANGING GLOBAL ECONOMIC ENVIRONMENT: IMPLICATIONS FOR LEVERAGE

- I. Introduction -- The estimate focuses on the possible exploitation by governments of vulnerabilities engendered by new economic circumstances
- II. Economic change in the 1970s and 1980s
 - The political-economic legacy of the 1950s and 60s
 - The "Golden Age" of high growth and cheap energy comes to an end
 - Relative economic power position shifts among countries (US-Japan-FRG) and among groups of countries (OECD, OPEC, Communist)
 - Interdependence intensifies (trade linkages, financial system, instant communication, technology diffusion)
 - Growth and inflation problems
 - Economic growth slows
 - Inflation becomes endemic and infectious
 - Resource problems
 - Energy supplies falter and prices skyrocket
 - Demand for imported foodstuffs grows, reserves disappear
 - Strategic mineral supplies become less secure
 - Trade, industry and technology problems
 - Trade frictions increase
 - US technological lead erodes
 - Financial problems
 - International financial system becomes less stable
 - Foreign debt grows
 - Communist country problems
 - Economic difficulties mount
 - Soviet military burden increases

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III. The impact of these changes on global relations and policies

- Among industrial countries: e.g., trade frictions, international repercussions of national fiscal and monetary policies
- Among LDCs (newly industrial countries; oil-rich countries; poorest countries): e.g., growing conflicts of interest among these groups
- Industrial countries-Communist: access to industrial countries' grain, credit, and technology
- Intra-Communist: e.g., growing political-economic diversity within "socialist camp"

IV. Vulnerabilities of the US and the western economic system

- Problems have different magnitudes: major shocks (a prolonged oil shortage, financial panic) versus minor irritants (temporary shortages of cobalt)
- Uncontrolled occurrences
 - Acts of God (earthquakes, droughts)
 - Domestic political upheavals (in Saudi-Arabia, Southern Africa)
 - International financial debacles
- Controlled manipulations for political ends
 - Blunt weapons
 - Persian Gulf (or Nigerian) use of oil weapon
 - Soviet intimidation to exact oil tribute
 - South African denial of minerals
 - Arab manipulation of international monetary system
 - Subtle weapons
 - Implied threats to use the blunt weapon (USSR and OPEC)
 - Moral suasion in international forums (LDCs)
 - Mythical weapons
 - Raw material cartels

V. US and Western leverage: opportunities and limitations

- Goals of leverage (political purpose to be achieved)
- Importance of alliance cohesion
- Leverage exerted on vulnerabilities of
 - Communist countries (their access to grain, credits and technology)
 - OPEC (their security, markets, and invested assets)
 - LDCs (their security, markets, and access to credit and aid resources)

VI. US (and allies) versus USSR: the possible sequence and impact of economic warfare moves and countermoves